



Andrew P. Flanagan
Town Manager

TOWN OF ANDOVER

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Date: March 5, 2018

To: Board of Selectmen

From: Andrew P. Flanagan, Town Manager

Re: **North Reading Potable Water Intermunicipal Agreement**

At the February 28th joint Board of Selectmen meeting in North Reading, the boards discussed the need for a Special Town Meeting to address the North Reading Potable Water Intermunicipal Agreement. Therefore, I respectfully request that the Board call a Special Town Meeting to provide the community with an opportunity to reconsider this critical warrant article. Despite the accelerated schedule, my administration is committed to a robust community engagement and education program leading up to Special Town Meeting. I have provided below answers to questions that have been raised as to why this partnership is important to Andover.

Why is a long-term agreement beneficial to the Town of Andover?

- Substantial revenue would subsidize rate increases for Andover ratepayers and provide for long-term financial security for the Water Enterprise:
 - Sustaining the partnership with North Reading prevents an approximately 30% increase in water rates.
 - The revenue from North Reading is approximately nine times the incremental cost of providing water to North Reading.
 - North Reading represents roughly one third of our revenue; essentially subsidizing one third of our Water Enterprise costs, including but not limited to the salaries and benefits of water department employees.
 - Andover Ratepayers will save approximately \$52M over 25 years, \$81M over 50 years, \$95M over 75 years and \$102M over 100 years.
- Capital Expenses:
 - North Reading revenue supplements one third of the Water Enterprise's capital program.
 - Andover will only be responsible for capital expenses related to the delivery of water to the North Reading Town Line.
 - Builds capital capacity and retained earnings and accelerates Capital Improvement Program.
- Andover Water Department staffing does not incrementally decrease without North Reading as a customer
- Andover Board of Selectmen have direct control of the rates charged to North Reading, with the only limitation being a cap on increases of not more than 2.5% each of the first ten years.
- Andover has available water supply capacity from the Merrimack River and available treatment capacity at our Water Treatment Plant.

Why 99 Years?

- North Reading has been a water customer for 44 years and this proposed agreement would continue a long-standing, effective, and beneficial partnership with a neighboring community.
- North Reading's highest priority for their water resource is permanency.
 - Currently, the Board of Selectmen is only allowed to enter into agreements of 25 years or less.
 - North Reading will not entertain an agreement that does not satisfy a permanent solution.

What is the rate that North Reading customers would pay for water?

- North Reading's water rate would be 95% of the Andover Tier 1 Rate, with annual increases not to exceed 2.5% for the first 10 years.
- 95% of Tier 1 is a wholesale supply price to the Town of North Reading, not the rate its ratepayers will be charged. North Reading will add a distribution charge which amounts to a total rate which is at least double the rate Andover ratepayers are charged.
- In years 11-99 – the North Reading supply rate will be set by the Andover Board of Selectmen in its capacity as Water Commissioners. Whichever rate the Board establishes as the Tier 1 rate; North Reading will pay 95%.
 - For example, if the Andover Water Commissioners (Board of Selectmen) raises the Tier 1 rate 6%, North Reading's wholesale rate will increase by 6%.

How will agreement impact Andover's water supply?

- Andover currently provides North Reading with about 1.26 million gallons per day (MGD). Andover has the capacity to provide North Reading with 2.6 MGD.
- The Merrimack River (Andover's water supply) has enough water every 7 minutes to supply Andover and North Reading on a max day. In the event we are at an historic low day, that volume is achieved in under 14 minutes.
- In the event that Andover encounters a major issue, any costs required to mitigate the issue will be shared with North Reading. We also have North Reading as a partner to help address any unforeseen challenges related to our water supply.

Why the \$95,300 annual credits?

- Andover will reimburse North Reading for costs incurred of up to \$953,000 over a period of 10 years in annual credits.
 - Any costs associated with the credit will be funded by the existing water rate. As a result, North Reading revenues would be used to offset the costs of approximately 30% of the North Reading credits.
 - Andover would not be providing this credit to North Reading if they are not a customer.